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UNCLAS SECTION 01 OF 02 LILONGWE 000838

SIPDIS

SENSITIVE

STATE FOR AF/S T. CRAIG  
TREASURY FOR INTERNATIONAL AFFAIRS / AFRICA / LUKAS KOHLER

E.O. 12958: N/A

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SUBJECT: MALAWI'S PRIVATE SECTOR OPTIMISTIC ABOUT MUTHARIKA

REF: A. LILONGWE 768

[1](#)B. LILONGWE 728

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SUMMARY  
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[1](#)1. (U) A recent visit to Malawi's business capital, Blantyre, showed the private sector to be generally optimistic about the new administration's economic direction. The consensus is that President Mutharika seems to be serious about cutting corruption and winning donor support through fiscal discipline. While business leaders are reserving some measure of scepticism, they say sticking to modest reforms will drive economic growth. End summary.

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SURPRISING OPTIMISM  
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[1](#)2. (U) In the course of routine calls on a variety of private sector contacts in Blantyre, the financial and industrial center of Malawi, Econoffs heard a surprising level of optimism about the prospects of the new government led by President Bingu wa Mutharika. Leaders from the finance, construction, agriculture, trade, transportation, and manufacturing sectors expressed approval of the administration's early moves against corruption and efforts to bring government spending under control. Several of our interlocutors said that if Mutharika accomplishes nothing other than these two objectives, he would breathe new life into the Malawian economy.

[1](#)3. (SBU) The economic context of this optimism is decidedly grim in most respects: representatives from one sector after another told us that their part of the economy is stagnant at best, with steady shrinkage the norm. A fund for small to medium-sized enterprises told us that high interest rates resulting from a decade of irresponsible government spending have made new investment all but impossible. Whatever demand has survived in this contracting economy is being crowded out by an insatiable demand for public debt. The largest commercial bank freely admits that two-thirds of its money is in government paper instead of loans. Exporters and construction industry leaders described a crippling drain of skilled workers, deteriorated agricultural productivity, and a tarnished reputation in the international investment community.

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SOLID SIGNS OF CREDIBILITY  
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[1](#)4. (SBU) Still, the prevailing sentiment agrees with the IMF Article IV team's report: that confidence in the economy is high enough to drive growth the instant interest rates come down (see ref A). Mutharika's quick establishment of a government austerity program, his campaign to build public support for corruption prosecutions, and his apparent bid to establish a government independent from the ruling party (ref B), are evidently a sharp enough departure to cause hope. The chairman of the Malawi Stock Exchange and the managing director at a discount house told us money is beginning to show early signs of exiting the money market in favor of equities. This is seen as a good sign that the financial community is beginning to believe the government's promises to bring spending under control. Foreign exchange pressure, which could drive a devaluation and a round of inflation, is mercifully low, thanks to a weak dollar and the central bank's successful efforts to control the exchange rate (to be reported via septel).

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COMMENT: NEW GOVERNMENT, NEW ECONOMY  
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15. (SBU) While this sampling of private-sector opinion is hardly scientific, it does point to a clear common understanding of the economic situation in Malawi: that the main problem with the economy has been the government. Only slightly less clear is the level of confidence in the Mutharika government's determination and ability to effect change. The political will seems to be there, in our interlocutors' view, but it seems too good to be true. There is still some concern that Mutharika will be co-opted or out-maneuvered by more experienced politicians, or simply fall into the African corruption trap on his own. The level of expectation for the government is modest (control spending and corruption, never mind other new initiatives), but the appraisal of Malawi's economic resilience is bright, provided the government can deliver on those modest expectations.

RASPOLIC